

**REPORT OF THE AUDIT OF THE
GALLATIN COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
January 1, 2011 Through April 15, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GALLATIN COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period
January 1, 2011 Through April 15, 2011

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the Gallatin County Sheriff for the period January 1, 2011 through April 15, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$514,902 for the districts for 2010 taxes, retaining commissions of \$20,926 to operate the Sheriff's office. The Sheriff distributed taxes of \$493,975 to the districts for 2010 taxes. Refunds of \$363 are due to the Sheriff from the taxing districts.

Report Comment:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Ken McFarland, Gallatin County Judge/Executive

Honorable Josh Neale, Gallatin County Sheriff

Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the Gallatin County Sheriff's Settlement - 2010 Taxes for the period January 1, 2011 through April 15, 2011. This tax settlement is the responsibility of the Gallatin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Gallatin County Sheriff's taxes charged, credited, and paid for the period January 1, 2011 through April 15, 2011, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Ken McFarland, Gallatin County Judge/Executive
Honorable Josh Neale, Gallatin County Sheriff
Members of the Gallatin County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal line extending to the right.

Adam H. Edelen
Auditor of Public Accounts

December 9, 2011

GALLATIN COUNTY
JOSH NEALE, SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period January 1, 2011 Through April 15, 2011

| <u>Charges</u> | <u>County Taxes</u> | <u>Special Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|----------------------------------|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate | \$ 41,540 | \$ 125,932 | \$ 309,915 | \$ 58,630 |
| Tangible Personal Property | 1,442 | 2,312 | 5,875 | 3,480 |
| Fire Protection | 62 | | | |
| Franchise Taxes | 11,316 | 22,177 | 51,264 | |
| Penalties | 2,532 | 7,737 | 18,569 | 3,510 |
| Adjusted to Sheriff's Receipt | 13 | 418 | 74 | 16 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Gross Chargeable to Sheriff | 56,905 | 158,576 | 385,697 | 65,636 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <u>Credits</u> | | | | |
| Exonerations | 89 | 228 | 667 | 122 |
| Discounts | 6 | 12 | 25 | |
| Delinquents: | | | | |
| Real Estate | 8,946 | 27,791 | 66,681 | 12,254 |
| Tangible Personal Property | 626 | 1,170 | 2,550 | 2,992 |
| Franchise Taxes | 3,997 | 7,465 | 16,291 | |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Credits | 13,664 | 36,666 | 86,214 | 15,368 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Taxes Collected | 43,241 | 121,910 | 299,483 | 50,268 |
| Less: Commissions * | 1,838 | 4,973 | 11,979 | 2,136 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Taxes Due | 41,403 | 116,937 | 287,504 | 48,132 |
| Taxes Paid | 41,403 | 116,938 | 287,503 | 48,131 |
| Refunds (Current and Prior Year) | 29 | 75 | 219 | 41 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | | ** | | |
| Refunds Due Sheriff | \$ (29) | \$ (76) | \$ (218) | \$ (40) |
| | <hr/> | <hr/> | <hr/> | <hr/> |

* Commissions:

| | |
|----------|------------|
| 4.25% on | \$ 199,072 |
| 4% on | \$ 310,256 |
| 1% on | \$ 5,574 |

** Special Taxing Districts:

| | |
|---------------------|------------------|
| Library District | \$ (37) |
| Health District | (19) |
| Extension District | (17) |
| Soil Conservation | (3) |
| Refunds Due Sheriff | <hr/> (76) <hr/> |

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2011
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2011, all deposits were covered by FDIC insurance.

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 6, 2011 through April 15, 2011.

Note 4. Interest Income

The Sheriff earned \$31 as interest income on 2010 taxes. As of December 9, 2011, the Sheriff owed \$14 in interest to the school district and \$17 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Gallatin County Sheriff collected \$27,451 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ken McFarland, Gallatin County Judge/Executive
Honorable Josh Neale, Gallatin County Sheriff
Members of the Gallatin County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Gallatin County Sheriff's Settlement - 2010 Taxes for the period January 1, 2011 through April 15, 2011, and have issued our report thereon dated December 9, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Gallatin County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Gallatin County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gallatin County Sheriff's Settlement - 2010 Taxes for the period January 1, 2011 through April 15, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Gallatin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

December 9, 2011

COMMENT AND RECOMMENDATION

GALLATIN COUNTY
JOSH NEALE, SHERIFF
COMMENT AND RECOMMENDATION

For The Period January 1, 2011 Through April 15, 2011

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

The Sheriff's office has a lack of adequate segregation of duties over tax receipts and disbursements. The employee responsible for handling tax receipts also records the receipts in the ledger, prepares the bank deposit, and performs the monthly bank reconciliation. In addition, the employee prepares the disbursement checks and is an authorized signer on checks. By the same employee performing these functions, the risk that errors or fraud may go undetected increases. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and compare the daily checkout sheet to the receipts ledger. Any difference should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should periodically perform surprise cash counts and recount cash. The Sheriff should document this by initialing the bank deposit ticket.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any difference should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: None.

